CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

October 24, 2000

H.R. 4181
Debt Payment Incentive Act of 2000

As ordered reported by the House Committee on Government Reform on October 5, 2000

Enacting H.R. 4181 could result in budgeting savings from increased federal collections and penalties, but CBO cannot estimate the likely amounts of such savings, if any. Because the bill could affect direct spending and receipts, pay-as-you-go procedures would apply. H.R. 4181 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act. Any costs to state, local, or tribal governments to implement this bill would be incurred voluntarily, as a condition of participating in a federal program.

Under the Debt Collection Improvement Act of 1996 an individual is ineligible for a federal loan or loan guarantee if he or she is delinquent in repaying a nontax debt to the federal government, unless this provision is waived by the head of an agency. H.R. 4181 would expand that prohibition to include delinquent federal taxes. The bill would allow the Office of Management and Budget to implement the prohibition against new loans or loan guarantees to applicants with tax debts on a limited basis if it believes full implementation would overburden the administrative capacity of the Internal Revenue Service (IRS) to identify delinquent federal taxpayers on a timely and reliable basis. The bill would require that the prohibition be applied to all programs six months after the date that the Secretary of the Treasury certifies that the IRS will complete the modernization of its computer systems. Finally, unless waived by the head of an agency, H.R. 4181 would prohibit contractors with delinquent tax or nontax debts from receiving most federal contracts. The provision would not apply to any contract that is needed to assist an agency in responding to a natural disaster or for national security, or is valued at $2,500 or less.

Implementing H.R. 4181 could increase the federal government's collection of delinquent debts, but CBO has no basis for estimating the amount of such additional collections, if any. Also, because the legislation would stiffen the penalty for contractors with delinquent federal debts, enacting H.R. 4181 could decrease the number and amount of new delinquent debts, particularly tax debts. But CBO has no basis for estimating the amount of savings from contractors' better compliance with federal tax laws and federal loan conditions.

Federal agencies already are required to submit delinquent nontax debts to the Department of the Treasury, which matches these records with files of federal payments. Where a match is found between a delinquent debt and a federal payment to the debtor, Treasury offsets a portion of that payment. Under this program, the government can offset a payment to a contractor to collect some or all of a federal nontax debt. Similarly, under the Taxpayer Relief Act of 1997, the IRS can offset payments made by the federal government to a contractor to collect delinquent tax debts.

It is unclear whether enacting this bill to bar individuals and companies with delinquent debts from contracting with the federal government would increase the government's collection of such debts. On the one hand, such a prohibition would likely encourage some applicants to pay off their debt. But by barring contracts, the bill would eliminate the government's ability to offset contractor payments. In addition, because the federal government is an important customer for many government contractors, prohibiting future contracts with firms that are in debt to the federal government would negatively impact such businesses—and could increase the difficulty of collecting debts from them.

CBO does not expect that prohibiting new loans and loan guarantees to delinquent debtors would significantly lower the cost of federal credit programs. OMB Circular No. A-129 already directs agencies with loan and loan guarantee programs to ascertain and take into consideration any delinquent federal debt, including tax debts, for the purpose of determining an applicant's creditworthiness.

The CBO staff contact for this estimate is John R. Righter. The estimate was approved by Peter H. Fontaine, Deputy Assistant Director for Budget Analysis.